

BILL # HB 2116

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TITLE: CORP; joinders; credited service

STATUS: House Engrossed

FISCAL ANALYSIS

Description

HB 2116 modifies an existing law that allows Department of Public Safety (DPS) and other dispatchers to switch from the Arizona State Retirement System (ASRS) to the Correctional Officers Retirement Plan (CORP). Under current law, only service as a dispatcher would be transferred to CORP. This bill would require all ASRS credited service, including purchased service, to be transferred to CORP. Actual participation is based on employers entering a “joinder” agreement with the CORP Fund Manager and the consent of the participant. This would not apply to employees who have already transferred from ASRS to CORP.

Estimated Impact

The fiscal impact of the bill cannot be determined with certainty, as it will depend on whether DPS decides to transfer its dispatchers from ASRS to CORP. If the transfer occurs, the General Fund savings would be \$(173,300) in FY 2009. This level of savings may decline in future years if PSPRS implements recommended changes to their actuarial assumptions as planned.

Analysis

In the CORP system, each employer has a different retirement contribution rate based on the characteristics of their participants. This analysis assumes that all eligible DPS dispatchers choose to transfer to CORP, although individual dispatchers can opt out of the transfer if they so choose.

Contribution rates have 2 components. The first component is the normal cost, which is the permanent cost associated with providing the benefit. The second component is the unfunded liability. Unfunded liability is created by adding benefits or changing assumptions and represents the cost of providing benefits to recipients who did not pay the full cost of the benefits as part of the normal cost. Unfunded liability is paid off over a specific amortization time period. The amortization period for CORP is 30 years.

The Fund Manager estimated that, if DPS enters an agreement with the Fund Manager to transfer their dispatchers under the provisions of this bill, the calculated employer contribution rate would be 5.99% for DPS in FY 2009. This consists of a normal cost of 5.08% and an unfunded liability of .91%. However, statute requires that the employer contribution rate be at least 6%.

If the bill induces DPS to enter into an agreement it would have not considered otherwise, it will create an overall short term savings of \$(173,300). The FY 2009 ASRS contribution rate will be 9.45%, including Long Term Disability. The normal cost under ASRS is 6.47%, which is higher than the estimated normal cost under CORP. This indicates that the long-term cost for DPS may be lower in the CORP system, based on current demographics and benefits. However, CORP rates are increasing for FY 2009, while ASRS rates will decline. An audit recently conducted by the Fund Manager identified several assumptions that need to be updated in CORP. Changing these assumptions will increase both the normal cost and unfunded liability, resulting in higher contribution rates in the coming years. Therefore, this level of savings may be reduced in future years.

Local Government Impact

There are additional county and state entities that may elect to join CORP due to the bill's provisions. Local costs or savings will depend on the specific composition of the members, and cannot be known in advance.